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Japan's Action Program Formally Unveiled

U.S. government and industry officials who dismiss Tokyo's July 30 "action program" for improved foreign access to the Japanese market as no different than its six empty predecessor packages should take a second look at the current version. In most areas, the new list of market opening measures, scheduled by the government this past April (see JEI Report No. 14B, April 12, 1985), goes beyond the statements of principles that normally constitute Japan's liberalization initiatives to detail the specific steps that will be taken. The July package also contains a timetable for change spanning the next three years -- another first. Perhaps most importantly, Prime Minister Yasuhiro Nakasone has pledged that implementation of the action program will be overseen at the highest political levels to prevent bureaucratic footdragging

Cabinet Adopts Stringent Fiscal 1986 Budget Guidelines

The stark numbers emerging from the guidelines for preparing Japan's fiscal 1986 general account budget came as no surprise to Japanese and American observers: austerity remains the keyword of Prime Minister Yasuhiro Nakasone's fiscal policy. The Ministry of Finance (MOF) continued to shave funds from most budget categories, but the axe bit most deeply into money to run the government. On the other hand, six areas not only escaped funding cuts but are earmarked for growth. The composition of spending is a clear indication of Mr. Nakasone's priorities (see table) and one that is likely to be hotly debated.

FY 1986 Budget Guidelines

(increase or decrease in billions of yen)

	FY 1985	FY 1986
Overall Discretionary Outlays	Y280.0 (0.9%)	Y480.0 (1.5%)
Current Government Outlays	-410.0	-390.0
Public Works Expenditures	-360.0	-350.0
Subtotal	-770.0	-740.0
Personnel Costs	120.0 (1.6%)	77.0 (1.0%)
Pensions	410.0	435.0
Official Development Assistance	60.0 (11.4%)	58.0 (10.0%)
Alternative Energy Development	35.0 (8.0%)	20.0 (4.4%)
Defense Costs Mandated by International Treaty*	267.0	306.0
International Science and Technology Cooperation	18.0	17.0
Subtotal	910.0	910.0
Defense	205.5 (7.0%)	219.6 (7.0%)
Disaster Relief	240.0	210.0
Special Budget Requests	-100.0	100.0

*Annualized costs of providing support personnel and base facilities for U.S. armed forces in Japan.

Source: Ministry of Finance

Overall discretionary spending (total outlays less debt service costs and transfers to local governments) will rise by Y480 billion ($2 billion at $240=$1.00) to just over Y33 trillion ($138 billion). This translates into a 1.5 percent initial increase, better than fiscal 1984's 0.9 percent final rise. Beneath this increase, however, budget winners and losers stand in sharp contrast.

The biggest losers for the second year in a row are current government outlays, which include the ministries' operating budgets, and public works spending. MOF again sought and received a 10 percent reduction in government outlays and a 5 percent dip in public works funds. These two spending cuts will reduce FY 1986 outlays by Y740 billion ($3.1 billion), smaller than FY 1985's Y770 billion achievement.

Increases totaling Y910 billion ($3.8 billion) will be distributed among pensions, defense, personnel salaries, official development assistance (ODA), alternative energy development and science and technology. Although the single most difficult issue was defense spending (see following article), ODA outlays were also the subject of intense bargaining. Foreign Minister Shintaro Abe fought hard for a 10 percent increase in the ODA budget, arguing that it was critical to Japan's "peace diplomacy" program. In addition, Mr. Abe reasoned that the double-digit increase was necessary to the success of the Foreign Ministry's plan to double Japan's ODA outlays over seven years from its FY 1985 $2.4 billion level. The fact that Mr. Abe succeeded in garnering the highest percentage increase among major budget items is seen as bolstering his political position in the jockeying to succeed Mr. Nakasone.

Cabinet adoption of MOF's budget guidelines is the first step in the long budget process and an important indicator of the direction of fiscal policy. It is also a good gauge of the relative strengths of each cabinet minister vis-a-vis the powerful Finance Ministry. Each ministry must now prepare a detailed budget in accord with the guidelines for submission to MOF by the end of August. The final budget should be compiled by the end of the year.

Jon Choy

MOF Okays 7 Percent Ceiling For FY 86 Defense Spending Hike

As part of its overall ceiling for the fiscal 1986 budget, the Ministry of Finance (MOF) agreed to a maximum 7 percent hike for the Japan Defense Agency (JDA), bringing JDA's budget to Y3.36 trillion (about $14 billion at Y240=$1.00). This figure came shortly after the Japanese press reported that JDA sought an increase of 8 percent. The final ceiling was considerably higher -- by MOF standards -- than the 5.1 percent figure adopted by the ministry at the same point in last year's budget negotiatons, an indication that the tightfisted keepers of the government's yen may finally have been pulled into line with the Nakasone government's policy to shift scarce budget funds from domestic programs to defense and overseas development assistance.

For the last five years, JDA spending hikes have never fallen below 6.5 percent. In the last two years, however, increases have come only with the prime minister's personal intervention and the support of top defense proponents within the LDP. The fact that MOF went along with the 7 percent spending ceiling suggests that such intervention will not be necessary this year. It also bodes well for the first year of the new five-year defense estimate, which should be approved soon by the Nakasone government for implementation beginning April 1, 1986. Defense observers had suggested that the plan would be unable to meet its goals if the first year provided for less than a 6 to 7 percent spending hike.